

## Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 PA-01 EUR-12 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PRS-01 /116 W

----- 048239

R 200700Z JAN 76

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 5292

INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY CAIRO

AMEMBASSY ISLAMABAD

AMEMBASSY KINGSTON

AMEMBASSY KINSHASA

AMEMBASSY LIMA

AMEMBASSY LUSAKA

AMEMBASSY MEXICO

AMEMBASSY NEW DELHI

AMEMBASSY YAOUNDE

AMCONSUL ZAGREB

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E.O. 11652: N/A

TAGS: EFIN, ENRG, YO

SUBJECT: CIEC: IMPACE OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT

REF : (A) STATE 6381; (B) 75 BELGRADE 3206

SUMMARY: NEGATIVE IMPACT OF OIL PRICE INCREASES ON YUGOSLAVIA'S  
ECONOMY HAS BEEN SUBSTANTIAL ESPECIALLY IN SPURRING INFLATION

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AND CAUSING DETERIORATION IN BALANCE-OF-PAYMENTS POSITION. OIL

COST IS EQUAL TO OVER 50 PERCENT OF YUGOSLAVIA'S CURRENT ACCOUNT DEFICIT IN 1974 AND 1975. ECONOMIC DOWNTURN IN WESTERN EUROPE, CAUSED IN PART BY OIL CRISIS, POSES SERIOUS PROBLEMS FOR YUGOSLAVIA'S ECONOMY INCLUDING SHARPLY REDUCED EXPORTS AND NET RETURN FLOW OF YUGOSLAV WORKERS. ON BALANCE, YUGOSLAVIA'S ECONOMY HAS FARED BETTER THAN MANY OTHERS OVER PAST TWO YEARS BUT DOMESTIC GROWTH SLOWED IN 1975 AND UNTIL SUBSTANTIAL ECONOMIC IMPROVEMENT OCCURS IN WESTERN EUROPE, YUGOSLAVIA WILL HAVE TO ACCEPT LOWER GROWTH THAN ECONOMICALLY OR POLITICALLY DESIRABLE. YUGOSLAV LEADERSHIP IS WELL AWARE OF NEGATIVE CONSEQUENCES OF OIL HIKES FOR DOMESTIC ECONOMY BUT IN DETERMINING OIL POLICY, FOREIGN POLICY CONSIDERATIONS OF NON-ALIGNED SOLIDARITY AND SUPPORT FOR NEW ECONOMIC ORDER HAVE BEEN PARAMOUNT. THIS OFFICIAL EMPHASIS LIKELY TO CONTINUE BUT IN PRACTICAL TERMS YUGOSLAVIA CERTAINLY DOES NOT WANT TO SEE FURTHER LARGE INCREASES IN PRICE OF OIL. END SUMMARY.

1. FOLLOWING IS STATISTICAL INFORMATION REQUESTED PARA 2  
REFTEL (A):

	OIL IMPORT		PERCENTAGE OF	
	QUANTITY	VALE	TRADE	CURRENT ACCOUNT
	000 TONS	\$ MILLION	DEFICIT	DEFICIT
1972	4.208	82.5	8.38(	N/A
1973	8.299	220.0	13.3	N/A
1974	7.406	681.2	18.2	54.9

10 MONTHS 1975

5.964 528.3

#

7.2 EST. ABOUT 60 PERCENT

YUGOSLAVIA PRODUCES ABOUT ONE-THIRD OF ITS OIL NEEDS DOMESTICALLY (IN 1975 DOMESTIC PRODUCTION ESTIMATED AT 3.6 MILLION TONS), IMPORT ABOUT 30 PERCENT FROM THE SOVIET UNION AT WORLDMARKET PRICES, AND IMPORTS REMAINDER FROM MIDDLE EASTERN COUNTRIES MAINLY IRAQ IN 1975 (SEE REFTEL (B) FOR STATISTICAL BREAKDOWN).

2. YUGOSLAVIA HAS RECEIVED SOME FINANCIAL AND DEVELOPMENT ASSISTANCE FROM NEWLY RICH OIL PRODUCERS IN THE PAST TWO YEARS. IN 1974 KUWAIT EXTENDED \$100 MILLION FINANCIAL CREDIT LIMITED OFFICIAL USE

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ON LIBERAL TERMS AND IN 1975 KUWAIT AND LIBYA AGREED TO LEND \$125 MILLION AND \$75 MILLION RESPECTIVELY FOR PARTIAL CONSTRUCTION OF YUGOSLAV OIL PIPELINE PROJECT. IT HAS BEEN REPORTED UNOFFICIALLY THAT IRAQ SOLD YUGOSLAVIA 4.5 MILLION TONS OF OIL IN 1975 ON SEVEN-YEAR CREDIT WITH TWO-YEAR GRACE PERIOD. SENIOR YUGOSLAV OFFICIALS HAVE TOLD EMBASSY KUWAIT MAY MAKE ADDITIONAL FINANCIAL CREDIT AVAILABLE AND IN 1976 IRAQ MAY AGAIN SELL OIL ON CREDIT.

3. NEGATIVE IMPACT OF OIL PRICES ON YUGOSLAV ECONOMY IS CONSIDERED SIZABLE, ESPECIALLY IN INFLATION AND BALANCE-OF-PAYMENTS AREAS. YUGOSLAV ECONOMISTS ASSESS ABOUT 60 PERCENT OF 1974'S 28 PERCENT RATE OF INFLATION WAS DUE TO "IMPORTED INFLATION" CAUSED SIGNIFICANTLY BY HIGHER OIL PRICES. THIS HIGH RATE OF INFLATION EXACERBATED STRUCTURAL DISPROPORTIONS IN ECONOMY AND ITS CONTINUANCE THROUGH FIRST HALF 1975 BECAME SOURCE OF POLITICAL AS WELL QRUKECONOMIC CONCERN (INFLATION HAS ABATED SOMEWHAT IN SECOND HALF OF 1975). ON BALANCE-OF-PAYMENTS SIDE, NOT ONLY DID HIGHER OIL COST INCREASE DEFICIT BUT, MORE IMPORTANTLY, YUGOSLAV EXPORTS TO RECESSIONARY WESTERN EUROPEAN MARKETS HAVE SUFFERED SHARP DECLINE -- IN 1975 VALUE OF YUGOSLAV EXPORTS TO WESTERN EUROPE ESTIMATED ABOUT 18 PERCENT LOWER THAN IN 1974.

4. IMPACT OF OIL HIKE IN WESTERN EUROPEAN ECONOMIES HAS IMPORTATNT IMPLICATIONS FOR YUGOSLAVIA, INCLUDING DRYING UP OF EUROPEAN MIGRANT LABOR MARKET AND NET RETURN FLOW OF YUGOSLAV WORKERS FROM ABROAD. AS ESTIMATED 800 THOUSAND YUGOSLAVS ARE IN WESTERN EUROPE AND IN 1974 ABOUT 60 THOUSAND RETURNED TO YUGOSLAVIA AND IN 1975 PERHAPS AS MANY AS 80 THOUSAND. THESE RETURNEES, COMBINED WITH NORMAL DOMESTIC INCREMENT OF LABOR FORCE AND CONTINUING RURAL/URBAN MIGRATION, ARE CAUSING LOCAL EMPLOYMENT PRESSURES THAT YUGOSLAV ECONOMY CANNOT COMPLETELY SATISFY, EVEN WITH HIGH EMPLOYMENT GROWTH (OVER 5 PERCENT REALIZED IN 1975).

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PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PRS-01 /116 W

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R 200700Z JAN 76

FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC 5293  
INFO AMEMBASSY BRASILIA  
AMEMBASSY BUENOS AIRES  
AMEMBASSY CAIRO  
AMEMBASSY ISLAMABAD  
AMEMBASSY KINGSTON  
AMEMBASSY KINSHASA  
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5. IN 1974 YUGOSLAVIA'S SOCIAL PRODUCT GREW IN REAL TERMS ABOUT SEVEN AND ONE-HALF PERCENT AND INDUSTRIAL PRODUCTION ROSE OVER 10 PERCENT, THUS PROVIDING AN EXCEPTION TO POOR GROWTH SLOWED AS YUGOSLAV ECONOMY WAS FORCED TO ADJUST TO CHANGED INTERNATIONAL ENVIRONMENT, AND SOCIAL PRODUCT PROBABLY INCREASED ABOUT 5.5 PERCENT AND INDUSTRIAL PRODUCTION ABOUT 5.8 PERCENT. AT SAME TIME LOW PRODUCTIVITY, INCREASING INVENTORIES OF FINISHED GOODS, UNCONTROLLED INVESTMENT AND SIZABLE TRADE DEFICIT CAUSED AND/OR REFLECTED SERIOUS ECONOMIC PROBLEMS. ON LIMITED OFFICIAL USE

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BALANCE, DURING THE PAST TWO YEARS, YUGOSLAVIA'S ECONOMY HAS FARED BETTER THAN MANY OTHERS. HOWEVER, THE POTENTIAL DOMESTIC POLITICAL IMPLICATIONS OF SLOWER GROWTH IN THIS ETHNICALLY DIVERSE NATION ARE SUCH THAT EVEN THIS RELATIVELY GOOD ECONOMIC PERFORMANCE (IN COMPARISON WITH MOST WESTERN EUROPEAN COUNTRIES) IS CONSIDERED THE MINIMUM POLITICALLY TOLERABLE. 1976 GOALS INCLUDE FIVE PERCENT GROWTH IN SOCIAL PRODUCT AND SIX AND ONE-HALF PERCENT INCREASE IN INDUSTRIAL PRODUCTION, MODEST COMPARED WITH PREVIOUS YEARS' TARGETS BUT CONSIDERED MAXIMUM PRACTICABLE IN LIGHT OF WORLD AND EUROPEAN ECONOMIC CONDITIONS. YUGOSLAV OFFICIALS HAVE TOLD EMBASSY THEY EXPECT DIFFICULTY IN MEETING EVEN THESE MODEST TARGETS AND REALIZATION OF YUGOSLAVIA'S MEDIUM-TERM GROWTH PLANS DEPEND SIGNIFICANTLY ON ASSUMPTION OF ECONOMIC RECOVERY IN WESTERN EUROPE. WE NOT IN POSITION TO ASSESS WHEN THIS RECOVERY WILL TAKE PLACE. UNTIL IT DOES, HOWEVER, WE BELIEVE THAT YUGOSLAV ECONOMY WILL HAVE TO ACCEPT SIGNIFICANTLY LOWER GROWTH THAN ITS LEADERS WOULD WISH.

6. EMBASSY IS UNAWARE OF SPECIFIC DEVELOPMENT PROJECTS THAT MAY HAVE BEEN SCALED DOWN OR SHELVED AS RESULT OF OIL CRISIS.

HOWEVER, CONDITIONS IN WESTERN CREDIT MARKETS DURING PAST TWO YEARS HAVE MADE IT MORE DIFFICULT FOR YUGOSLAVIA TO BORROW THE LARGE SUMS NEEDED TO FINANCE COUNTRY'S DEVELOPMENT PLANS. THERE IS STRONG EMPHASIS ON ACCELERATED DEVELOPMENT OF YUGOSLAVIA'S VERY SUBSTANTIAL COAL RESERVES (PRIMARILY LIGNITE) BUT TO DATE LITTLE HAS BEEN ACCOMPLISHED. DOMESTIC OIL EXPLORATION IS ALSO BEING INTENSIFIED, INCLUDING OFF-SHORE DRILLING IN THE ADRIATIC IN JOINT VENTURE COOPERATION WITH U.S. FIRM BUTTE-CHALLENGER. YUGOSLAVIA'S DEVELOPMENT PLANS IN PETROCHEMICAL SECTOR APPEAR AS AMBITIOUS AS EVER WITH HIP PANCEVO PROCEEDING WITH SUBSTANTIAL EXPANSION, INCLUDING FERTILIZER PLANT, AND NEGOTIATIONS CONTINUING WITH DOW CHEMICAL FOR POSSIBLE \$600 MILLION JOINT VENTURE IN PETROCHEMICALS. WHILE CHANGING INTERNATIONAL ECONOMIC CONDITIONS HAVE FORCED YUGOSLAVS TO SCALE DOWN OVERALL DEVELOPMENT GOALS, DEVELOPMENT STRATEGY HERE IS TO BETTER CONTROL AND CHANNEL INVESTMENT IN ORDER TO INCREASE SUBSTANTIALLY NEW INVESTMENT IN HIGH PRIORITY SECTORS (BASICALLY ENERGY, AGRICULTURE AND RAW MATERIALS) AT SAME TIME THAT INVESTMENT INCREASES SLOWLY OR STAGNATES IN NON-PRIORITY AREAS.

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7. COMMENT: YUGOSLAVIA'S ECONOMIC/POLITICAL LEADERSHIP IS WELL AWARE NEGATIVE IMPACT OF HIGHER OIL PRICES ON COUNTRY'S ECONOMY DIRECTLY AND INDIRECTLY THROUGH ECONOMIC CONSEQUENCES OF OIL HIKES ON WESTERN EUROPEAN ECONOMIES (I.E. REDUCED EXPORTS, HIGH PRICED IMPORTS, RETURNING WORKERS, MORE DIFFICULT ACCESS TO CREDITY). EVERY SENIOR LEVEL ECONOMIC OFFICIAL AND ALL KNOWLEDGEABLE PRESS PEOPLE WITH WHOM EMBASSY HAS DISCUSSED THIS SUBJECT OVER TWO-YEAR PERIOD HAS SHOWN KEEN APPRECIATION OF EFFECTS OF OIL PRICE INCREASE ON DOMESTIC ECONOMY. IT SHOULD BE STRESSED YUGOSLAVS HAVE REMARKABLE ABILITY TO TREAT THIS ISSUE AT TWO DISTINCT LEVELS; FOR THIS ISSUE STRIKES RIGHT AT GUTS OF THEIR FOREIGN AND DOMESTIC POLICY. THEY ARE FORCED INTO LOGICAL INCONSISTENCY. ON ONE HAND THEY WELL AWARE OF AND WORRIED ABOUT IMPACT OF OIL PRICES ON YUGOSLAV ECONOMY. ON THE OTHER HAND THEY DEFEND OIL PRODUCERS' ACTIONS AS JUSTIFIED BY PAST EXPLOITATION BY DEVELOPED WEST AND DESIRABLE IN TERMS OF HELPING CREATE NEW WORLD ECONOMIC ORDER. THEY DON'T REALLY HAVE A CONVINCING ARGUMENT ON WHAT PRICE MSA'S MUST PAY FOR THE SUPPOSED ADVANTAGES OF NON-ALIGNED SOLIDARITY; SO THEY SOFT-SHOE IT. THUS FAR, IN DETERMINING OFFICIAL YUGOSLAV POLICY THIS SUBJECT, FOREIGN POLICY IMPERATIVES OF NON-ALIGNED SOLIDARITY AND ADVOCACY OF NEW ECONOMIC ORDER HAVE CLEARLY OUTWEIGHED ADVERSE DOMESTIC ECONOMIC CONSEQUENCES. IT IS OUR JUDGMENT THIS EMPHASIS WILL CONTINUE ALTHOUGH WITH LITTLE REAL ENTHUSIASM. IN PRACTICAL TERMS, YUGOSLAVS CERTAINLY DO NOT WANT TO SEE FURTHER LARGE INCREASES IN OIL PRICES. IN SUMMER 1975 A SENIOR YUGOSLAV ECONOMIC OFFICIAL SAID ONLY HALF JOKINGLY TO AMBASSADOR

THAT YUGOSLAVIA EXPECTS US TO TAKE CARE OF THIS PROBLEM.  
SWEITZER

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
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**Disposition Approved on Date:**  
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**Reference:** 76 STATE 6381, 75 BELGRADE 3206  
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04 MAY 2006

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**Type:** TE  
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